This Top REIT Yielding More Than 5% Is the Perfect Income Stock for 2020

Description

These days, for investors seeking real estate stocks, there is a major choice to make. The Canadian real estate industry has been hot the last decade, as most people know, and this doesn't exclude real estate investment trusts (REITs).

Due to the major run up in real estate values, many investors have wondered if the housing market is safe, but whether or not housing prices climb or fall, demand for housing will remain largely the same.

Plus, at a time when consumer debt is stretched and many investors believe there may be a recession coming, investors have been buying up what they believe to be the safest stocks first.

The combination has left residential real estate stocks with growth valuations and smaller yields than many investors want, leaving would-be REIT buyers to look elsewhere for larger yields.

To find these bigger yields, investors will have to look to what has been thought of as a higher-risk sector of the real estate industry: the retail REITs.

Not all retail REITs have that much risk though, such as **Choice Properties REIT** (TSX:CHP.UN), which is one of the top retail REITs in Canada.

Choice Properties owns a variety of projects across Canada, with most of its assets in retail locations, but also complementing those properties with some office, residential, and industrial properties, as well as development land.

I generally agree that retail-oriented REITs carry increased risk, such as those that operate malls and other properties that have higher exposure to a reduction in consumer spending. That risk is almost non-existent with Choice Properties though, considering the type of properties it owns and the tenants it serves.

Many of the properties are located in key markets with growing populations and house tenants such as large grocery stores and banks, businesses that aren't going anywhere.

Its strong portfolio is evidenced by its solid occupancy rate, which is nearly 98%, and its solid and consistent growth in net operating income.

In its most recent quarter, the company reported funds from operations per share of $0.25, giving it an annual payout ratio of 74% on its dividend, which yields roughly 5.35% today. That dividend is one of the most attractive in the industry given relative values of risk and potential for growth in the future.

Its future growth looks inevitable, especially with development properties in strategic areas that will give the company flexibility and add a tonne of value for shareholders over the coming years.

The company’s debt is spaced out strategically over the next decade, reducing risk considerably, which is another thing investors don’t have to worry about, despite its large debt position.

Currently its enterprise value (its market value plus outstanding net debt) is roughly $10.8 billion, which, excluding the writedowns it took when it disposed of assets earlier in 2019, would give it an enterprise value to earnings before interest, taxes, depreciation, and amortization ratio of roughly 10 times — a pretty fair valuation for such a large and stable REIT.

Choice Properties is the ideal stock for investors looking for real estate exposure today, especially if you want a significant dividend. Although it’s not in the highly defensive residential sector, Choice is extremely well managed to provide stable income and long-term growth.

Its stock was up roughly 20% in 2019. Stable companies with high yields such as real estate stocks will be some of the most in-demand stocks for investors in 2020. Grabbing some shares now could prove to be very rewarding.

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1. Dividend Stocks
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1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)

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